

Service Date: January 6, 1982

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER of the Application )  
of the CITY OF HAMILTON To Estab- )  
lish Sewer Rates. )  
\_\_\_\_\_ )

UTILITY DIVISION  
DOCKET NO. 81.9.82  
PROPOSED ORDER NO. 4868

APPEARANCES

FOR THE APPLICANT:

Donald McKenna, City Attorney, 175 South Third Street, Hamilton, Montana 59840

FOR THE INTERVENORS:

None

FOR THE COMMISSION:

Opal Winebrenner, Staff Attorney, 1227 - 11th Avenue, Helena, Montana 59620

BEFORE:

John Driscoll, Commissioner and Hearing Examiner

FINDINGS OF FACT

1. On September 21, 1981, the City of Hamilton (Applicant or City) filed an application with this Commission for authority to establish a sewer use charge for consumers connected to the municipal sewerage system. The user charge system proposed by the City will generate approximately \$124,600 in annual revenues.

2. On November 19, 1981, pursuant to notice of public hearing, a hearing was held in the City Council Chambers, Hamilton, Montana. The purpose of the public hearing was to consider the merits of the Applicant's proposed sewer use charge system.

3. At the public hearing the City presented the following four witnesses:

Emil Klingman, Sewer Superintendent  
Hugo R. "Bud" Schatz, Administrative Assistant  
Tom Thomas, Consulting Engineer  
Tom Peterson, Mayor

4. At the public hearing six public witnesses testified. The main concerns expressed by these witnesses related to dissatisfaction with the implementation of a user charge system and whether the general mil levy would be reduced to reflect the financing of the sewer department by user charge instead of through general tax assessment.

5. It has been the policy of the City of Hamilton to finance the operation and maintenance costs of the municipal sewer department through the general fund. The City now proposes to fund the sewer department through the assessment of user charge against those consumers utilizing the service. This is an appropriate method of funding given the fact the sewer utility is classified as an enterprise fund, i.e. it should be a self-supporting activity of the City which renders a service to the general public.

6. There was discussion on the record relating to a reduction in the general mil levy since the sewer utility expenses would no longer be funded from the general fund. It should be pointed out that it is not within this Commission's jurisdiction to order the City to reduce its general mil levy, with the implementation of a user charge system of funding sewer utility operations. The City should, however, examine its general tax assessment and determine whether a reduction could be accomplished since the general fund would no longer be burdened with funding the sewer utility operations.

7. The City's proposed rates, being considered by this Commission, are to cover the operation and maintenance expenses of the sewer utility in the amount of \$85,600 annually and funds for making capital improvements to the present system in the amount of \$39,000 annually, for a total of \$124,600 annually.

8. The City's budgeted operation and maintenance expenses for fiscal year 1982 are \$62,506. For purposes of determining sufficient rates for the next two years, the City has

projected an annual inflation rate of 10% and adjusted administrative salaries to reflect the expense of a person to administer the billing of the user charge. The Commission finds the inflation rate of 10% annually to be reasonable and the inclusion of the cost of a billing clerk acceptable and, therefore, accepts the City's projection that operation and maintenance expenses will be \$85,600.

9. The City is also requesting funds in the amount of \$39,000 annually to replace portions of the currently existing sewerage system. It is common practice in municipal rate making to allow funds to adequately maintain and replace portions of the currently existing system.

10. In this case, approximately 30% of the total revenue request is for making capital improvements to the present system. This request is higher than usual and generally above the percentage amount the Commission usually allows. It is supported, however, by testimony that new mains need to be installed on Main Street, that flushing and cleaning of the mains is necessary, that there is a large amount of infiltration, and that no major improvements to the system have been done in the recent past, because the sewer department has been funded on a crisis basis. The Commission accepts the City's request for funds in the amount of \$39,000 annually to adequately maintain the current system.

11. The Commission finds the City has a revenue need to \$124,600 annually determined as follows:

Operation and Maintenance Expense	\$ 85,600
Recurring Annual Capital Improvements	<u>39,000</u>
Total	\$124,600

12. The City in this case has presented a cost of service study utilizing volume, sewage strength and customer costs to assign the cost of providing service to each customer classification. The costing method used to allocate cost responsibility to the various customer classifications is acceptable with the exception that the City has allocated the cost of infiltration into the system on a per customer basis. It is the Commission's opinion that infiltration into the system is associated with the volume of sewage as opposed to being an equal distribution between each customer. Therefore, the Commission finds that the City should rework its cost of service study and allocate the infiltration costs to each customer classification based upon the volume of flow into the sewage system.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the parties and subject matter in this proceeding.
2. The Commission afforded all interested parties notice of and an opportunity to participate in this proceeding.
3. The rates approved herein are just and reasonable.

ORDER

IT IS ORDERED by the Hearing Examiner, John Driscoll, that the City of Hamilton is authorized to implement a user charge system for purposes of funding the operation of the municipal sewer utility.

IT IS FURTHER ORDERED that the City of Hamilton shall file rate schedules which generate annual revenues of \$124,600, which, however, shall be modified in accordance with Finding of Fact No. 12.

IT IS FURTHER ORDERED, pursuant to ARM 38.2.4802, that this is a proposed order. Any party shall have an opportunity to file exceptions to this initial decision, present briefs and make oral arguments before the entire Commission, provided such exception, briefs and requests for oral argument are presented to this Commission within twenty (20) days from the service date of this proposed order.

IT IS FURTHER ORDERED that a full, true and correct copy of this order be sent forthwith by first-class United States mail to the Applicant and to all other appearances herein.

DONE at Helena, Montana, this 6th day of January, 1982.

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John Driscoll, Commissioner  
Hearing Examiner